

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 26, 2009

The Capital Projects and Bond Oversight Committee met on Thursday, March 26, 2009, at 10:00 a.m., in Room 169 of the Capitol Annex. Representative Mike Denham, Chair, called the meeting to order.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Mike Denham, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Steven Rudy and Jim Wayne.

Guests testifying before the Committee: John Hicks, Governor's Office for Policy and Management; John Nicholson and Bill Cook, Kentucky Horse Park; Charles Bush, Division of Real Properties; Sam Ruth, Finance and Facilities; Katie Smith, Economic Development Cabinet; Barbara Schempf, Kenton County Airport Board; Tom Howard and Brett Antle, Office of Financial Management; Dr. Robert Tarvin, School Facilities Construction Commission; and Sandy Williams, Kentucky Infrastructure Authority.

LRC Staff: Don Mullis, Shawn Bowen, Kristi Culpepper, and Samantha Gange.

Representative Denham indicated that a quorum was not present so the Committee would begin with no action items. He called on Don Mullis, Committee Staff Administrator, to discuss several items of business. Mr. Mullis said members' folders contained several information items: an Introduction to Kentucky Debt prepared by Kristi Culpepper, Legislative Analyst, proposed legislation relating to the jurisdiction of the Committee, the monthly staff update, and the bond market update. Mr. Mullis pointed out to members the information pertaining to the changes in the Administrative Office of the Courts (AOC) in the staff update. Mr. Mullis indicated staff would keep the Committee apprised of further changes at the AOC.

Next Representative Denham called on John Hicks, Deputy Budget Director, Governor's Office for Policy and Management, to discuss a reporting item related to the Tourism, Arts and Heritage Cabinet, Department of Fish and Wildlife Resources. Mr. Hicks reported four projects within the Department of Fish and Wildlife Resources Fees-in-lieu-of Wetland and Stream Mitigation capital project pool. The four projects include: East Fork Little Sandy in Lawrence County for restoration and enhancement of stream with a scope of \$1,516,400; Locust Creek in Lawrence County for restoration and enhancement of stream with a scope of \$698,500; Upper Cane Creek in Breathitt County

for restoration and enhancement of stream with a scope of \$1,029,200; and Salt Lick in Bath County for restoration and enhancement of stream with a scope of \$1,647,800. Each project will employ similar corrective measures to reduce bank stress and control flooding of streams. No Committee action was required.

Representative Denham indicated that the Committee had a quorum and asked the Secretary to take the roll.

Representative Rudy made a motion to approve the minutes of the February 19, 2009, meeting. The motion was seconded by Senator Carroll and approved by voice vote.

Next Representative Denham asked Mr. Hicks to present a project for Northern Kentucky University (NKU). Mr. Hicks asked the Committee for its approval of a scope increase of \$400,000 for the New Power Plant project for a revised scope of \$12,400,000. The restricted funds are derived from remaining account balances in two projects authorized in 2005 HB 267. The funds will be used to construct two new cooling towers to be connected to the existing chillers atop the Power Plant. The towers will provide approximately 400,000 square feet of expanded cooling capacity for the Regional Special Events Center and the Student Union Building. Mr. Hicks indicated that this will complete the project.

Representative Denham asked why the towers were not installed when the facility was built. Mr. Hicks said he believes the reason is because the additional square footage was not known at that time.

In response to a question from Representative Wayne, Mr. Hicks responded that this would complete the project.

Representative Wayne commented that for future projects the 13 month project deadline should be followed.

Representative Rudy made a motion to approve the scope increase for NKU New Power Plant project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Mr. Hicks next reported that the Finance and Administration Cabinet has approved an unbudgeted project for the Transportation Cabinet, Department of Vehicle Regulation. The Overweight/Over-dimensional Permit and Routing System has a project scope of \$1,100,000 (\$550,000 federal funds; \$550,000 restricted funds) and provides for a new information technology system that will replace the Department's manual system of tracking weight limits for bridges and roads and issuing permits for motor carriers that exceed size or weight limits.

Representative Denham asked if the new system will provide savings for the Commonwealth and if all the new permits will go through this system. Mr. Hicks responded affirmatively.

Representative Wayne made a motion to approve the project. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Hicks reported that the Finance and Administration Cabinet has approved an unbudgeted 100% federally-funded project for the Kentucky Horse Park (KHP). The Big Barn Restoration project has a project scope of \$964,000 and will create a visitor center and carriage museum within the Big Barn. John Nicholson, Executive Director, KHP, came forward to discuss the project.

Representative Denham asked for the amount remaining in the Transportation Enhancement fund and what projects have already been funded. Mr. Hicks responded that he would gather the information and report back to the Committee.

In a response to a question from Senator Carroll, Mr. Nicholson responded that KHP expected to realize additional revenues from visitors to the 2010 Alltech World Equestrian Games.

Bill Cook, Chairman, KHP, commented that moving the carriages from the museum to the Big Barn will allow visitors the opportunity to experience horse-drawn carriage rides.

Senator Leeper asked how the federal funds for this project are available on a reimbursement basis. Mr. Hicks said the Commonwealth has entered into a cash management agreement with the federal government in which the Commonwealth spends and is reimbursed by the federal government in a timely way. Mr. Hicks said a receivable account is set-up for these funds.

Representative Denham asked Mr. Nicholson to give a short synopsis on the status of current KHP projects in preparation for the 2010 Alltech World Equestrian Games. Mr. Nicholson said the biggest project is the indoor arena and is scheduled to be completed on June 30, 2009. The second biggest project is the outdoor stadium which is scheduled to be completed by the end of April 2009. In addition, there were two major road projects to fix infrastructure within the park. One was completed last year and the other is scheduled to be completed by next spring.

Representative Denham asked if the Big Barn renovation will enhance its historical significance. Mr. Nicholson responded affirmatively.

Senator Carroll made a motion to approve the KHP project. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Denham called on Charles Bush, Director, Division of Real Properties, and Sam Ruth, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to report lease modifications and square footage modifications. Mr. Bush reported two lease modifications. The first lease modification was for the Cabinet for Health and Family Services (PR-3499) in Leslie County. The Cabinet requested improvements to its facility to enhance security. The cost of the modifications, \$1,486, will be amortized over the remaining lease term (June 30, 2013). The Cabinet's monthly rental cost will increase by approximately \$28. The second lease modification was for the Council on Postsecondary Education (PR-3761) in Franklin County. The Council requested improvements to its leased facility to convert an open work area to an enclosed office, and installation of conduit, cable tray and outlet boxes to support the agency's teleconferencing needs. The cost of the modifications, \$2,478, will be amortized over the remaining lease term (through June 30, 2012). The Council's monthly rental cost will increase by approximately \$62.

Next Mr. Bush reported five state agency lease modifications that involved square footage increases or decreases for the months of October through December 2008. Each of the modifications was less than \$50,000 and did not require Committee approval.

Representative Wayne asked Mr. Bush to provide a status report on improvements made pursuant to the Boni Frederick Bill. Mr. Bush said he would provide the report to staff.

Senator Carroll asked if there was a current report underway regarding space consolidation in Franklin County. Mr. Ruth responded that he would gather the information and provide a report to staff.

Senator Tori asked for an explanation of the reduction of 121 square feet of space at the Public Advocacy office in Daviess County. Mr. Bush responded that the agency had been paying for common space. The owner, trying to accommodate another tenant, asked the agency to give up the space. Mr. Bush said the decrease in space did not have an impact on the agency.

Representative Denham called on Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, to discuss a new Economic Development Bond (EDB) Pool grant and EDB project amendments. Ms. Smith asked the Committee to approve an EDB grant in the amount of \$3,959,980 for the Kenton County Fiscal Court for the benefit of the Kenton County Airport Board. The grant proceeds will offset the \$16 million cost of equipping up to 27 gates in Concourse A of Terminal 3 at the Cincinnati/Northern Kentucky International Airport with new

boarding bridges. Pursuant to the EDB grant agreement, Delta and Delta Connection will be required to maintain an average of 85% of their current daily departures (225) during the month of January 2010.

In response to questions from Representative Denham, Ms. Smith explained that this grant agreement was negotiated differently than other EDG grants. The airlines must meet the departure requirement before grant funds will be disbursed. In past EDB grant agreements, the grant funds were disbursed before the grantee had to meet job creation and wage/salary requirements. Ms. Smith said that this project represents about 5% of the total authorized in EDB funds.

Representative Wayne asked if the Louisville Airport Authority has received any EDB grants. Ms. Smith said she did not have that information available and would report back to staff.

Representative Wayne asked if prevailing wage laws would be followed. Barbara Schempf, Kenton County Airport Board, said that prevailing wage laws would be followed.

Senator Carroll made a motion to approve the EDB grant. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Next Ms. Smith reported two EDB grant amendments for Belcan Engineering Groups, Inc. – Lexington Fayette Urban County Government, and Retail Logic, Inc. (dba Pan-Oston) – Warren County Fiscal Court. Due to economic conditions, both companies requested modifications to their job reporting requirements in advance of the scheduled reporting dates. The Kentucky Economic Development Finance Authority approved both amendments at their February 26, 2009 meeting. No committee action was required.

Representative Denham asked Tom Howard, Executive Director, Office of Financial Management (OFM), and Brett Antle, Deputy Director, OFM, to come forward. Mr. Antle asked the committee for its approval of two new bond issues. The first bond issue was for Murray State University General Receipts Bonds, 2009 Series A, in the amount of \$7,679,009. Proceeds from this bond issue will provide financing for three projects authorized in HB 406 (2008-10 budget): New Residential College – Richmond Hall; Renovate Buildings; and Complete Capital Renewal.

Senator Leeper made a motion to approve the new bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

The second new bond issue was for Eastern Kentucky University General Receipts Bonds, 2009 Series A, in the amount of \$11,946,017. Proceeds from this bond issue will

provide financing for two projects: Renovate Residence Hall (HB 406, 2008-10 budget); and Construct Intramural Fields (HB 267, 2004-06 Budget).

Representative Rudy made a motion to approve the new bond issue. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Mr. Antle next reported another new bond issue that did not need Committee approval. The new bond issue was for Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (Revitalization Projects) 2009 Series A. Proceeds from this bond issue will permanently finance the final \$150 million of \$350 million Road Fund supported projects authorized in HB 380 (2006-08 budget). It is anticipated that the outstanding Asset/Liability Commission Road Fund First Series A Notes will be redeemed with this bond issue.

Representative Denham asked how these bond issues will be received in the current municipal marketplace. Mr. Howard indicated that the market has improved and it is really a function of credit and credit ratings. Mr. Howard also said that the Commonwealth's credit has been at the same ratings for several months and that the Turnpike Authority is the Commonwealth's highest credit rated, with a AA+ from Standard & Poor's.

Mr. Antle next provided two follow-up reports for State Property and Buildings Commission (SPBC) bond issues. First, SPBC Revenue and Revenue Refunding Bonds, Project No. 93. Proceeds from this bond issue will provide permanent financing for approximately \$308.8 million of General Fund supported projects authorized in HB 267 (2004-06 budget), HB 380 (2006-08 budget), and HB 406 (2006-08 budget), and refund debt issued by the SPBC and Asset/Liability Commission in order to provide budgetary relief for fiscal year 2010. The Committee approved this issue at the January 2009 meeting.

The second follow-up report was for SPBC Road Fund Revenue Bonds, Project No. 94. Proceeds from this bond issue will provide permanent, Road Fund supported financing for \$34 million of transportation projects authorized in HB 406 (2008-10 budget), including the replacement of the Automated Vehicle Identification System and the alignment and expansion of a runway at Bluegrass Airport. The Committee approved this issue at the January 2009 meeting.

In response to a question from Representative Wayne, Mr. Howard said he would provide the information to Committee staff on how much state money was represented in the total cost of the Bluegrass Airport.

Mr. Antle then discussed a bond activity report for Western Kentucky University General Receipts Bonds, 2009 Series A. This bond issue provides financing for several

projects authorized in HB 406 (2008-10 budget): Renovate Van Meter Hall, Renovate Science Campus Phase II, Expand Preston Center Phase II construction, Renovate Ivan Wilson Center Phase I, Replace Building Ford College Business Grise Hall, and Acquire Property and Construct Parking Lots. The Committee approved this issue at the November 2008 meeting.

Next Mr. Antle reported the Kentucky Economic Development Finance Authority (KEDFA) Hospital Revenue Bonds, Series A and Variable Rate Demand Hospital Revenue Bonds (Baptist Healthcare System Obligated Group). Proceeds from this bond issue will provide \$100 million of new money to finance projects at five Baptist hospitals and refund approximately \$400 million of outstanding bonds and bank loans. The Committee approved this issue at the November 2008 meeting.

Representative Denham asked which five Baptist hospitals were involved. Mr. Antle indicated that he would provide the information to Committee staff.

Mr. Antle reported 11 new bond issues with School Facilities Construction Commission debt participation for Beechwood Independent in Kenton County, Crittenden County, Ft. Thomas Independent in Campbell County, Green County, Jackson County, Magoffin County, Meade County, Mercer County, Owen County, Pineville Independent in Bell Count, and Williamstown Independent in Grant County.

In response to questions from Senator Tori, Dr. Robert Tarvin, Executive Director, SFCC, said that Beechwood Independent in Kenton County, Ft. Thomas Independent in Campbell County, and Jackson County were all considered category five schools. Dr. Tarvin also indicated that these three category five schools do not include actual expansions, but that the construction makes the schools safer.

Representative Wayne made a motion to approve the SFCC new bond issues. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Mr. Mullis then reported two school district bond issues with 100% local debt service support: Estill County and Jefferson County. All disclosure information has been filed. No Committee action was required.

Representative Denham asked Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority to present allocations from the Unobligated Bond Pool. The projects are as follows: a \$180,332 grant for Carlisle County Sanitation District #1 wastewater treatment plant surge basin with a total project amount of \$205,000; a \$130,000 grant for the City of Flatwoods (Greenup County) for a tank renovation and booster pump station with a total project amount of \$200,000; a \$189,502 grant for Georgetown Municipal Water & Sewer System (Scott County) for a force main and pumping system with a total project amount of \$3,390,000; a \$47,000 grant for the City

of Sacramento (McLean County) for an influent meter with a total project amount of \$47,000; a \$108,000 grant for Marshall County Fiscal Court for Phase II water line extension with a total project amount of \$1,908,000.

Senator Leeper made a motion to approve the Unobligated Bond Pool grants. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded by Representative Wayne and the meeting adjourned at 11:10 a.m.